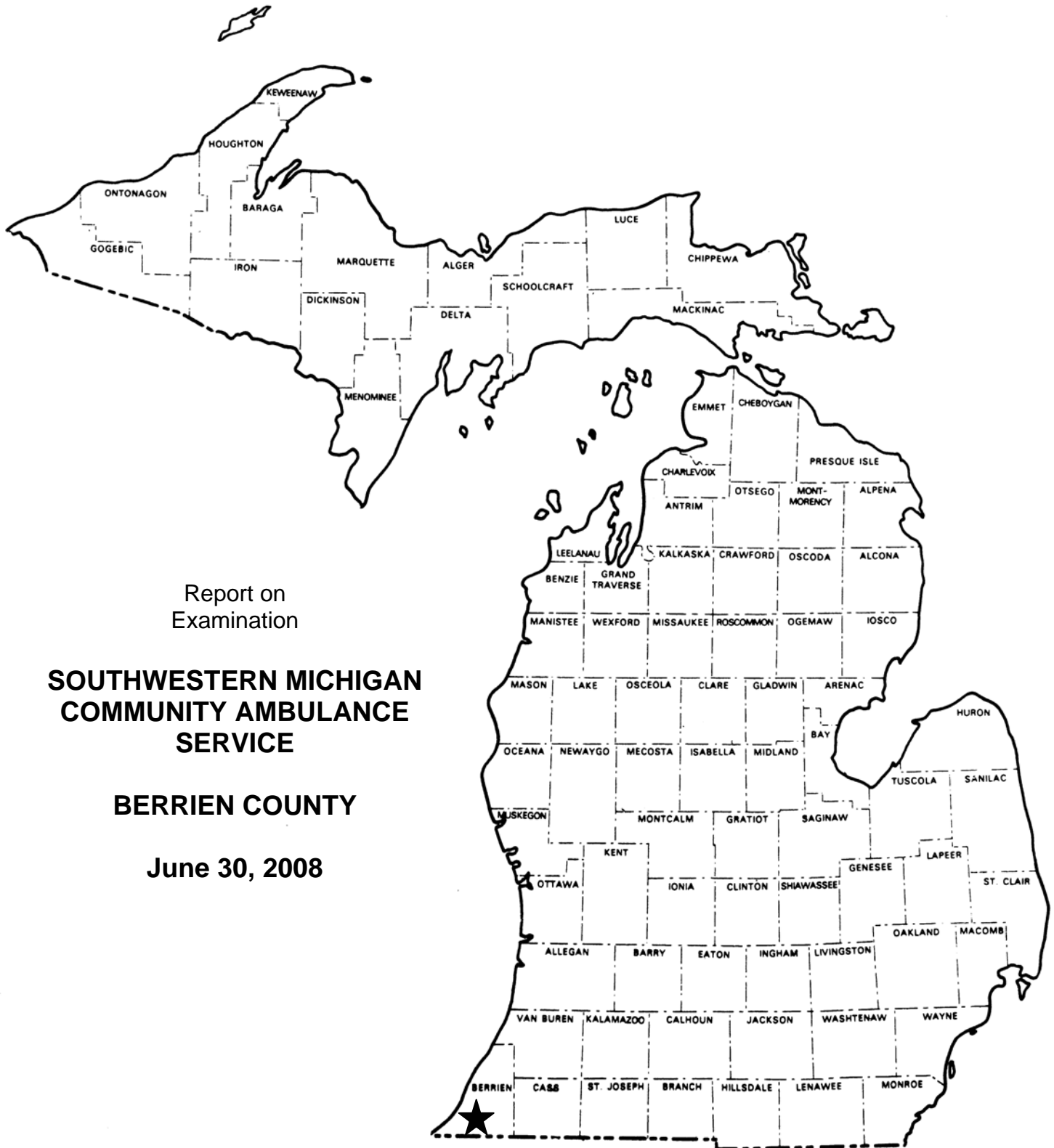


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

BOARD OF DIRECTORS

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Chair

Kevin Tonkin  
Vice-Chair

William Marx  
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JENNIFER M. GRANHOLM  
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STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

January 15, 2009

Southwestern Michigan Community  
Ambulance Service  
2100 West Chicago Road  
Niles, Michigan 49120

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the business-type activities of the Southwestern Michigan Community Ambulance Service as of and for the year ended June 30, 2008, which collectively comprise the Southwestern Michigan Community Ambulance Service's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Southwestern Michigan Community Ambulance Service's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Southwestern Michigan Community Ambulance Service, as of June 30, 2008; and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2009 on our consideration of Southwestern Michigan Community Ambulance Service's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurements and the presentation of supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM

Audit Manager

Local Audit and Finance Division

# **SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE**

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# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Southwestern Michigan Community Ambulance Service (SMCAS), a State of Michigan Licensed Advanced Life Support Ambulance Agency, is in its third year of implementing the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB 34) with the enclosed basic financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be SMCAS's discussion and analysis of the financial results for the year ended June 30, 2008.

SMCAS is owned by the townships of Bertrand, Buchanan, Niles and Howard and by the cities of Buchanan and Niles. These municipalities have jointly formed a special assessment district. Each year, the boards of these municipalities meet to establish the special assessment to be levied for the upcoming year. For the fiscal year ending June 30, 2008, the assessment rate was \$20.00 per dwelling and the contract rate was \$20.00 per dwelling. The SMCAS service area is approximately 190 square miles and includes the aforementioned municipalities. In addition, SMCAS services a portion of Pokagon Township on a contract rate that capped at a rate of \$20.00 per dwelling.

SMCAS currently owns five advanced life support ambulances and a paramedic first responder vehicle. Two transport ambulances are fully staffed twenty-four hours a day, a third transport ambulance is fully staffed twelve hours a day, and the first responder vehicle is staffed by management during normal business hours and on an as needed basis. In July 2005, SMCAS increased the staffing level to include four medical personnel to staff the twelve-hour car. This increase in medical staffing levels represents the first scheduled crewmember staffing increase since SMCAS went to the Advanced Life Support level in 1986. In March of 2006, SMCAS reinstituted a wheelchair van program to better serve the citizens of the service area.

Emergency calls for service for the years ended June 30, 2007 and 2008 were 2,764 and 2,957, respectively. This amounted to a 6.9 percent increase in emergency run volume. Ambulance transfers for the years ended June 30, 2007 and 2008 were 753 and 949, respectively. This amounted to a 26.0 percent increase in transfer run volume.

### Using this Annual Report

Our discussion and analysis of SMCAS's financial performance provides an overview of the SMCAS's financial activities for the fiscal year ended June 30, 2008. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of SMCAS and present a longer-term view of their finances.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Overview of the Financial Statements

This annual report consists of two parts--management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of SMCAS:

- The first two statements are financial statements that provide both long-term and short-term information about SMCAS's overall financial status. These statements report information about SMCAS, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of SMCAS's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two statements report SMCAS's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure SMCAS's financial health or position.
- The remaining Statement of Cash Flows is to demonstrate the activities of SMCAS as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

### Reporting the SMCAS as a Whole

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about SMCAS, as a whole, and about its activities in a way that helps answer the question of whether SMCAS, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets include all of SMCAS's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report SMCAS's net assets and how they have changed. The reader can think of SMCAS's net assets (the difference between assets and liabilities) as one way to measure SMCAS's financial health or financial position. Over time, increases or decreases in SMCAS's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of SMCAS you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of SMCAS's buses, and changes in the laws related to the operating assistance received from Federal and State government.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Analysis of SMCAS as a Whole

SMCAS's net assets increased approximately 1.87% or \$47,277 from \$2,534,914 to \$2,582,191 for the year ended June 30, 2008. The net assets and change in net assets are summarized below.

### Net Assets

The unrestricted net assets increased by \$247,494 and the investment in capital assets decreased by \$200,217 during 2008. The decrease in the investment in capital assets decreased due to the depreciation on the capital asset.

Net assets as of year ended June 30, 2008 are as follows:

	<u>2007</u>	<u>2008</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 1,456,432	\$ 1,665,058	\$ 208,626	14.32%
Net Capital Assets	<u>1,239,257</u>	<u>1,039,040</u>	<u>(200,217)</u>	<u>-16.16%</u>
Total Assets	<u>2,695,689</u>	<u>2,704,098</u>	<u>8,409</u>	<u>0.31%</u>
Current Liabilities	<u>160,775</u>	<u>121,907</u>	<u>(38,868)</u>	<u>-24.18%</u>
Total Liabilities	<u>160,775</u>	<u>121,907</u>	<u>(38,868)</u>	<u>-24.18%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	1,239,257	1,039,040	(200,217)	-16.16%
Unrestricted	<u>1,295,657</u>	<u>1,543,151</u>	<u>247,494</u>	<u>19.10%</u>
Total Net Assets	<u><u>\$ 2,534,914</u></u>	<u><u>\$ 2,582,191</u></u>	<u><u>\$ 47,277</u></u>	<u><u>1.87%</u></u>

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Changes in Net Assets

	<u>2007</u>	<u>2008</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charge for Services	\$ 2,377,658	\$ 2,559,405	\$ 181,747	7.64%
Membership Fees	37,970	37,017	(953)	-2.51%
Recovery of Accounts				
Previously Written-Off	13,932	11,824	(2,108)	-15.13%
Special Assessments	198,801	400,541	201,740	101.48%
Municipal Contract Revenues	7,920	7,920	-	0.00%
Other	22,792	36,043	13,251	58.14%
Less Adjustments	(955,222)	(1,087,658)	(132,436)	13.86%
Nonoperating Revenue				
Federal Grant		30,083	30,083	100.00%
Loss on Disposal of Assets		(17,904)	(17,904)	100.00%
Interest Earned	34,033	26,167	(7,866)	-23.11%
Total Revenue	<u>1,737,884</u>	<u>2,003,438</u>	<u>265,554</u>	<u>15.28%</u>
Operating Expense				
Operating Expenses	1,635,511	1,756,264	120,753	7.38%
Depreciation	220,717	199,897	(20,820)	-9.43%
Total Operating Expense	<u>1,856,228</u>	<u>1,956,161</u>	<u>99,933</u>	<u>5.38%</u>
Change in Net Assets	(118,344)	47,277	165,621	-139.95%
Beginning Net Assets	<u>2,653,258</u>	<u>2,534,914</u>	<u>(118,344)</u>	<u>-4.46%</u>
Ending Net Assets	<u><u>\$ 2,534,914</u></u>	<u><u>\$ 2,582,191</u></u>	<u><u>\$ 47,277</u></u>	<u><u>1.87%</u></u>

Adjustments to net revenue will continue to be a large item as SMCAS is mandated to accept assignments from both Medicare and Medicaid, which both pay at a below cost amount. The amounts will increase in correlation with the charges for services based on the number of ambulance runs made. The increased number of runs also correlates into increased ambulatory supply expenses.

The special assessment for fiscal year 2007 was \$10.00 per dwelling rate. For fiscal year 2008, the special assessment is \$20.00 per dwelling rate. SMCAS was also fortunate this year to receive a Federal grant of \$30,083 to purchase equipment for the department.

## SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Capital Asset Administration

As of June 30, 2008, SMCAS had \$1,039,040 invested in a broad range of capital assets such as land, building, vehicles, and equipment. All assets are paid with funds from SMCAS and, therefore, SMCAS has no debt issued in its name.

#### Economic Factors and Next Year's Budget

The most pressing issues facing SMCAS in fiscal year 2009 will continue to be below cost reimbursement issues and uncollectible accounts. Adjustments and write-offs to accounts are budgeted at over one million dollars. The board will continue to monitor these items at each monthly meeting.

#### Contacting the SMCAS's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of SMCAS's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Executive Director's office at: 2100 West Chicago Road, Niles, Michigan 49120, phone number (269) 684-2170.

**SOUTHWESTERN MICHIGAN COMMUNITY  
AMBULANCE SERVICE  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2008**

**EXHIBIT A**

**ASSETS**

**ENTERPRISE  
FUND**

Ambulance

Current Assets

Cash and Cash Equivalents	\$ 403,361
Investments	531,445
Patients Accounts Receivable--Net of Allowance for Uncollectible Amount	692,261
Accounts Receivable	1,541
Due From Other Units of Government	15,466
Prepaid Expenses	20,984

Total Current Assets	<u>1,665,058</u>
----------------------	------------------

Noncurrent Assets

Capital Assets--Net of Accumulated Depreciation	<u>1,039,040</u>
-------------------------------------------------	------------------

Total Noncurrent Assets	<u>1,039,040</u>
-------------------------	------------------

Total Assets	<u><u>\$2,704,098</u></u>
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**LIABILITIES**

Current Liabilities

Accrued Liabilities	\$ 36,789
Unearned Membership Fee	<u>14,455</u>

Total Current Liabilities	<u>51,244</u>
---------------------------	---------------

Noncurrent Liabilities

Vested Employee Benefits	<u>70,663</u>
--------------------------	---------------

Total Noncurrent Liabilities	<u>70,663</u>
------------------------------	---------------

Total Liabilities	<u>121,907</u>
-------------------	----------------

**NET ASSETS**

Invested in Capital Assets	1,039,040
Unrestricted	<u>1,543,151</u>

Total Net Assets	<u><u>\$2,582,191</u></u>
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**The Notes to Financial Statements are an integral part of this statement.**

**SOUTHWESTERN MICHIGAN COMMUNITY  
AMBULANCE SERVICE  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS--PROPRIETARY FUNDS  
For the Year Ended June 30, 2008**

**EXHIBIT B**

	<b>ENTERPRISE FUND</b>
	<u>Ambulance</u>
Operating Revenues	
Charge for Services	\$ 2,559,405
Membership Fees	37,017
Recovery of Accounts Previously Written Off	11,824
Special Assessments	400,541
Municipal Contract Revenues	7,920
Other	36,043
Subtotal	<u>3,052,750</u>
Less Adjustments to Revenues	
Medicare	(457,968)
Medicaid	(240,515)
Blue Cross/Blue Shield	(30,978)
Uncollectible Accounts	(272,152)
Membership Adjustments	(12,507)
Other Adjustments	(73,538)
Subtotal	<u>(1,087,658)</u>
Total Operating Revenues	<u>1,965,092</u>
Operating Expenses	
Wages and Fringe Benefits	1,417,623
Vehicle Expense	120,858
Building Expense	32,396
EMS Supplies	88,538
Administrative Expense	96,849
Depreciation	199,897
Total Operating Expenses	<u>1,956,161</u>
Net Operating Income (Loss)	<u>8,931</u>
Nonoperating Revenues (Expenses)	
Federal Grant	30,083
Loss on Disposal of Assets	(17,904)
Interest Income	26,167
Total Nonoperating Revenues (Expenses)	<u>38,346</u>
Change in Net Assets	47,277
Net Assets--July 1, 2007	<u>2,534,914</u>
Net Assets--June 30, 2008	<u><u>\$ 2,582,191</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**SOUTHWESTERN MICHIGAN COMMUNITY  
AMBULANCE SERVICE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2008**

**EXHIBIT C**

**ENTERPRISE  
FUNDS**

	Ambulance
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 1,342,531
Cash Payments to Employees for Services and Benefits	(1,445,381)
Cash Payments to Suppliers for Goods and Services	(341,523)
Receipt of Membership Fees	37,017
Receipt of Special Assessments	393,068
Receipt of Contractual Fees	7,920
Receipt of Accounts Previously Written Off	11,824
Receipt of Other Revenues	36,043
	<u>41,499</u>
Net Cash Provided by Operating Activities	
Cash Flows From Noncapital Financing Activities	
Federal Grant	30,083
	<u>30,083</u>
Net Cash Provided by Capital and Related Financing Activities	
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	(17,700)
	<u>(17,700)</u>
Net Cash Provided by Capital and Related Financing Activities	
Cash Flows From Investing Activities	
Interest on Cash Equivalents	26,167
Sale of Investments	42,024
	<u>68,191</u>
Net Cash Provided by Investing Activities	
Net Increase (Decrease) in Cash and Cash Equivalents	122,073
Cash and Cash Equivalents--Beginning of Year	281,288
Cash and Cash Equivalents--End of Year	<u><u>\$ 403,361</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 8,931
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	199,897
Decrease (Increase) in Accounts Receivable	(124,104)
Decrease (Increase) in Intergovernmental Revenue	(7,473)
Decrease (Increase) in Prepaid Expenses	3,116
(Decrease) Increase in Accounts Payable	(5,998)
(Decrease) Increase in Accrued Liabilities	(27,758)
(Decrease) Increase in Unearned Revenue	(5,112)
	<u>41,499</u>
Net Cash Provided by Operating Activities	<u><u>\$ 41,499</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## NOTES TO FINANCIAL STATEMENTS

### NOTE A--REPORTING ENTITY

The Southwestern Michigan Community Ambulance Service (SMCAS) was formed as a corporation in 1975 under the provisions of Public Act 7 of 1967, as amended commonly known as the Urban Cooperation Act pertaining to intergovernmental contracts between municipal corporations, for the purpose of providing ambulance services. The municipalities included in the corporation are the City of Niles, City of Buchanan, Niles Township, Buchanan Township, Bertrand Township, and Howard Township. Each local unit appoints one person to comprise the seven member board that governs SMCAS.

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets) report information of the activities of SMCAS. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents SMCAS's assets and liabilities with the difference being reported as either invested in capital assets or restricted net assets.

The Statement of Revenue, Expenses and Changes in Net Assets demonstrates the degree to which the operating expenses of a given function or segment is offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

The financial activities of SMCAS are recorded in an enterprise fund. This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing busing services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the busing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The SMCAS has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

When both restricted and unrestricted resources are available for use, it is SMCAS's policy to use restricted resources first, then unrestricted resources as needed.

#### Cash and Investments

Cash is considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value.

#### Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the financial statements.

#### Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the Operating Fund in the government-wide financial statements. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions for depreciation of equipment are computed on the straight-line method.

Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building and Improvements	7 to 30 years
Equipment	3 to 7 years
Vehicles	3 to 5 years

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### NOTE C--CASH DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes SMCAS to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

SMCAS has designated three financial institutions for deposit of SMCAS funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investment in accordance with the State statutory authority as listed above.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

The risk disclosures for SMCAS's deposits, as required by GASB Statement No. 40, are as follows:

	<u>Business-Type Activities</u>
Cash (Checking Accounts)	\$403,311
Investments (Government Money Market)	531,445
Petty Cash	<u>50</u>
Total Deposits	<u><u>\$934,806</u></u>

#### Custodial Credit Risk--Checking Accounts

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, SMCAS's deposits may not be recovered.

At June 30, 2008, the bank balance of the deposits is \$423,425, of which \$300,000 is covered by Federal depository insurance and \$123,425 was uncollateralized

#### Custodial Credit Risk--Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, SMCAS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

#### Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, SMCAS's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

		<u>Rated Debt Investments</u>		
<u>Financial Institution</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Rating Institution</u>
Wells Fargo	Money Market Funds	\$531,445	Aaa AAAm	Moody's S&P

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

#### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. At June 30, 2008, the fair value of SMCAS's investments listed above have a weighted average maturity of 12 days.

### NOTE D--ACCOUNTS RECEIVABLE

The patient accounts receivable consists of billings to insurance companies and individuals for ambulance services provided. As of June 30, 2008, SMCAS has a patient accounts receivable balance of \$872,261 and has estimated that \$180,000 of that receivable will be uncollectible for the net receivable balance of \$692,261 reported in the financial statements.

### NOTE E--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 8,195			\$ 8,195
Subtotal	8,195	\$ -	\$ -	8,195
Capital Assets Being Depreciated				
Building	1,227,697		3,558	1,224,139
Medical Equipment	256,778	17,700	44,173	230,305
Vehicles	680,167		807	679,360
Office and Other Equipment	164,000		19,160	144,840
Subtotal	2,328,642	17,700	67,698	2,278,644
Less Accumulated Depreciation for				
Building	355,343	49,174	2,968	401,549
Medical Equipment	154,614	34,220	30,695	158,139
Vehicles	463,618	99,161	807	561,972
Office and Other Equipment	124,005	17,342	15,208	126,139
Subtotal	1,097,580	199,897	49,678	1,247,799
Net Capital Assets Being Depreciated	1,231,062	(182,197)	-	1,030,845
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 1,239,257</u>	<u>\$ 17,700</u>	<u>\$ 217,917</u>	<u>\$1,039,040</u>

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--COMPENSATED ABSENCES

SMCAS has an accrued liability for accumulated vested vacation and sick leave benefits payable for its employees. As of June 30, 2008, the accumulated vested vacation and sick leave benefits of the employees are as follows:

	<u>Balances</u> <u>07/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>06/30/08</u>
Vested Employee Benefits			
Vacation Benefits	\$ 46,034	\$ (9,640)	\$ 36,394
Sick Leave Benefits	<u>39,638</u>	<u>(5,369)</u>	<u>34,269</u>
Total	<u>\$ 85,672</u>	<u>\$ (15,009)</u>	<u>\$ 70,663</u>

Sick time hours are based on the following schedule:

	<u>Kelly Shift</u>	<u>12 Hour</u> <u>Day Crew</u>
Six months of full-time service but less than one year	48 hours	36 hours
Following each year of full-time service	144 hours	120 hours

Upon voluntary termination of employment or death, an employee or his/her heirs shall be entitled to receive a cash payment for accrued and unused sick time up to a maximum of 250 hours.

Vacation is earned as follows:

	<u>Kelly Shift</u>	<u>12 Hour</u> <u>Day Crew</u>
Six months but less than one year	72 hours	60 hours
One year but less than two years	144 hours	120 hours
Two years but less than six years	216 hours	180 hours
Six years but less than ten years	288 hours	240 hours
Ten years plus	360 hours	288 hours

Accrued vacation will be paid to staff upon termination of employment or to the employee's heirs upon death.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## NOTES TO FINANCIAL STATEMENTS

### NOTE I--EMPLOYEES' RETIREMENT SYSTEM

SMCAS participates in a 401(a) retirement plan covering substantially all employees. Under the plan, SMCAS contributes an amount equal to 5% of an eligible employee's gross salary, excluding bonuses.

SMCAS also offers all employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in SMCAS's financial statements. In addition, SMCAS matches employee contributions up to 6% of the employees' gross salary, excluding bonuses.

For the year ending June 30, 2008, SMCAS contributed \$77,566 to the retirement plans.

### NOTE J--RISK MANAGEMENT

SMCAS is exposed to various risks of loss related to property loss, torts, errors and omissions, and employees' injuries (workers' compensation). SMCAS has purchased commercial insurance policies to cover any anticipated or significant losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

January 15, 2009

Southwestern Michigan Community  
Ambulance Service  
2100 West Chicago Road  
Niles, Michigan 49120

RE: Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of the Financial Statements Performed in  
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the business-type activities of Southwestern Michigan Community Ambulance Service, as of and for the year ended June 30, 2008, which collectively comprise Southwestern Michigan Community Ambulance Service's basic financial statements and have issued our report thereon dated January 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southwestern Michigan Community Ambulance Service's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southwestern Michigan Community Ambulance Service's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Southwestern Michigan Community Ambulance

Service's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Southwestern Michigan Community Ambulance Service's financial statements that is more than inconsequential will not be prevented or detected by Southwestern Michigan Community Ambulance Service's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting which are listed as Findings 2007-1 and 2008-1 through 2008-6.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Southwestern Michigan Community Ambulance Service's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2007-1 and 2008-1 through 2008-6 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southwestern Michigan Community Ambulance Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the management, the Southwestern Michigan Community Ambulance Service's Board, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

January 15, 2009

Southwestern Michigan Community  
Ambulance Service  
2100 West Chicago Road  
Niles, Michigan 49120

RE: Report to Those Charged With Governance

We have audited the financial statements of the business-type activities of the Southwestern Michigan Community Ambulance Service for the year ended June 30, 2008, and have issued our report thereon dated January 15, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated May 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Southwestern Michigan Community Ambulance Service. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Southwestern Michigan Community Ambulance Service's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 11, 2008.

### Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Southwestern Michigan Community Ambulance Service are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ending June 30, 2008. We noted no transactions entered into by the Ambulance Service during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the allowance for doubtful accounts is based on management's determination of the patient's accounts receivable that will not be collected from the insurance companies. The estimate for depreciation is management's estimate of the deterioration of the assets. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts and depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 15, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Ambulance Service's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ambulance Service's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board and management of the Southwestern Michigan Community Ambulance Service and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## SCHEDULE OF FINDINGS

### MATERIAL WEAKNESSES

#### Segregation of Duties

*Finding 2007-1*

*Condition:* We noted in our consideration of internal controls over financial reporting several material weaknesses related to segregation of duties and the following accounting transaction cycles:

1. We found for the receipting process that the executive director currently opens all mail, posts all revenue to the general ledger, and reconciles the bank statements.
2. We found for the disbursement process that the executive director is responsible for opening the mail, reviewing the invoices, approving the invoices, entering the invoices into the general ledger, and again is the reconciler of the bank statements.
3. We found for the payroll process that the executive director reviews the timesheets, enters the payroll information into the general ledger, processes the payroll, writes the checks for payroll, distributes the checks for payroll, and completes all tax forms.
4. We found for the bank reconciliation process that the executive director has sole control of disbursements and is the only one who reconciles the bank statements with no other approvals or verifications.
5. We found for the maintenance of the capital asset records that the executive director has sole control of the listing and is the only one who reconciles additions and disposals to the list with the balances on the general ledger and the posting of depreciation expense.

*Criteria:* The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) lists segregation of duties as a key component in internal control activities. Segregation of Duties is defined as key duties and responsibilities to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

The Uniform Accounting Procedures Manual issued by the Michigan Department of Treasury states “the functions of authorizations, recordkeeping, and custody of assets should be segregated where possible.”

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## SCHEDULE OF FINDINGS

### MATERIAL WEAKNESSES (Continued)

*Recommendation:* We recommend that the board implement policies and procedures to create segregation of duties taking the following criteria into consideration:

1. Collections should be reconciled by an individual not involved in the receipting process. Ideally, the process of cash collection and depositing should be performed by an employee who is independent from general ledger recordkeeping and bank reconciliation. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
2. Dual signatures should be required for all checks. All functions (i.e., deposit, write checks, issue checks, reconcile account) regarding a checking account should not be performed by the same individual.
3. The payroll duties should be adequately segregated between the following: master file creation (including maintenance of pay rates), payroll check preparation, and payroll distribution.
4. In small units of government when segregation of duties is not possible, a second official must review the bank reconciliations.
5. The capital assets should be reviewed by a second official to ensure accuracy of the list and to compare the postings to make sure they agree with the amounts recorded in the general ledger.

### Bank Reconciliations

*Finding 2008-1*

*Condition:* As is the case with many governmental units, SMCAS has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, SMCAS's ability to prepare financial statements in accordance with General Accepted Accounting Principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of SMCAS's internal controls.

*Criteria:* All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of SMCAS's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records); and 2) reporting government-wide financial statements, including related footnotes.

*Cause:* The condition was caused by SMCAS's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining necessary training and expertise required for SMCAS to perform the task internally.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## SCHEDULE OF FINDINGS

### MATERIAL WEAKNESSES (Continued)

*Effect:* As a result of this condition, SMCAS lacks the internal control over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

#### Bank Reconciliations

*Finding 2008-2*

*Condition:* SMCAS did not perform bank reconciliations correctly as the cash in the general ledger was not reconciled to the cash in the bank accounts and reconciling items were not accounted for correctly.

*Criteria:* The Standards for Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of the internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states: "All cash accounts should be reconciled to their respective bank statements monthly."

*Recommendation:* We recommend that all bank accounts be reconciled on a timely basis with the accounting records. All reconciling items should be substantiated. The activity in the bank should reconcile back to the general ledger and provide a means to correct errors in posting.

#### Special Assessments Receivable

*Finding 2008-3*

*Condition:* Prior to the start of our audit, the special assessments receivable had not been updated for the current year. A beginning uncollected balance from Bertrand Township from the 2007 assessment still exists as of June 30, 2008.

*Criteria:* The Special Assessments Receivable is used to record the balance of special assessments remaining unpaid. Balances that are not received should be addressed to reduce the account to zero prior to the start of the next tax collection period to ensure amounts are collected.

*Recommendation:* We recommend SMCAS review the special assessments to be collected each year to ensure all assessments are collected. Amounts not collected by year end should be recorded as a receivable and investigated to ensure collection is made.

#### Capital Assets

*Finding 2008-4*

*Condition:* SMCAS did not update its capital asset listing prior to the start of the audit. New assets purchased, assets disposed of, and depreciation expense posted to the general ledger did not reconcile to the subsidiary capital asset ledger.

# SOUTHWESTERN MICHIGAN COMMUNITY AMBULANCE SERVICE

## SCHEDULE OF FINDINGS

### MATERIAL WEAKNESSES (Continued)

*Criteria:* The Michigan Department of Treasury and generally accepted accounting principles requires that each governmental unit maintain a record of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be presented on the Statement of Net Assets-Net of Depreciation and related debt. SMCAS is to update the capital asset listing for additions and deletions. Assets purchased during the year should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records. Depreciation is also to be calculated on the capital assets and posted to depreciation expense and the respective accumulated depreciation accounts.

*Recommendation:* We recommend SMCAS maintain its capital asset listing throughout the year and that it be periodically reviewed to ensure that new equipment is properly posted, disposals are updated, and related depreciation is calculated.

### Prepaid Expenses

*Finding 2008-5*

*Condition:* Prior to the start of the audit, the prepaid expense balance was not adjusted for current year's activities.

*Criteria:* The prepaid expense account is used to record charges entered into the accounts of the local unit for benefits not yet received.

*Recommendation:* We recommend that the prepaid expense account is reviewed and reconciled to the subsidiary records and invoices to ensure the amount is updated to the correct balance.

### Payroll Withholding Liability Accounts

*Finding 2008-6*

*Condition:* SMCAS is not monitoring the liability accounts used to record the amounts due to the State and Federal government, and other entities for payroll withholdings.

*Criteria:* When payroll is processed, the employees' portion of the State, Federal, and other withholdings are recorded in liability accounts. At the time of payment to the State, IRS, or other entity, the employees' portion of the taxes and other withholdings due should be removed from the liability line-item reducing the balance of the accounts to zero.

*Recommendation:* We recommend that SMCAS begin monitoring the payroll withholding liability line-items to verify the accuracy of the postings and to make certain the accounts are reaching a zero balance after the payments are made.